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REPORT ON HEADQUARTERS OFFICE ACCOMMODATION

SUMMARY

The present report has been prepared in accordance with Executive Board decision 1992/35 (E/ICEF/1992/14). It reviews developments regarding headquarters office accommodation that have taken place since the matter was considered by the Board at its 1992 session (E/ICEF/1992/AB/L.9). It describes the results of further negotiations with the United Nations Development Corporation (UNDC) and the New York City Economic Development Corporation (NYCEDC) with respect to UNICEF House and possible additional expansion space in Manhattan (paras. 15-36), as well as further negotiations regarding proposals received for two locations in Queens (para. 37) and one location in Westchester County (New Rochelle) (paras. 38-49). An offer from the Government of Austria is also described and reviewed (paras. 50-52). The present report also contains a review of the non-financial implications of moving most or all of central headquarters from Manhattan, as requested by the Board in decision 1992/35 (paras. 53-63).

The Executive Director's conclusions and recommendations are contained in paragraphs 64-82, which describe two possible options. Because he believes that it would be in the best interest of UNICEF to accept the proposal by NYCEDC and UNDC, the Executive Director recommends that he be given the authority to proceed with the final negotiations with regard to that choice. The Executive Director further recommends that he be given the authority to issue, if necessary, a letter of intent to UNDC/NYCEDC. If the recommendation is approved, it would be the intention of the Executive Director to submit a progress report to the Executive Board in the fall of 1993.

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INTRODUCTION

1. The present report has been prepared in accordance with Executive Board decision 1992/35 (E/ICEF/1992/14). It follows three recommendations by the Executive Director in previous headquarters office accommodation reports (E/ICEF/1990/AB/L.9, E/ICEF/1991/AB/L.9 and E/ICEF/1992/AB/L.9), the last of which was aimed at implementing a long-term, cost-effective strategy to solve the continuing critical office space problem at New York headquarters, after further negotiations and refinement of several possible options.

2. The Advisory Committee on Administrative and Budgetary Questions (ACABQ), after reviewing the 1992 report by the Executive Director, expressed regret in its ensuing report (E/ICEF/1992/AB/L.18) that the Executive Director was not at that time in a position to propose to the Board a long-term solution and that consequently, he intended to report back to the Board in 1993. ACABQ noted that negotiations were ongoing with the United Nations Development Corporation (UNDC) and the New York City Economic Development Corporation (NYCEDC) with regard to their lease extension ownership proposal for UNICEF House, and that the costs for this option, including the cost of leasing a possible suitable building in close proximity to UNICEF House, were not known. ACABQ also noted that the review of other implications of a relocation of headquarters outside New York City was still pending and that other proposals, including possible cost-free offers in other countries, might emerge. Under the circumstances, ACABQ saw no need to make specific recommendations and took note of the options presented in the report of the Executive Director.

3. Following the 1992 regular session of the Executive Board, UNICEF, in collaboration with the real estate consulting firm engaged to assist with the study of possible long-term office accommodation alternatives undertaken in the fall of 1991, continued to negotiate and refine several of the most attractive proposals, including possible options in Westchester County and the Boroughs of Queens and Manhattan in New York City. Meetings were held with representatives of the firms and governmental entities that had submitted proposals in an effort to improve further the financial and non-financial aspects of the offers already received.

4. An extensive effort was also made through close cooperation with the New York City Mayor's office, NYCEDC and UNDC to identify any other attractive possibilities within New York City. In particular, a close working relationship was established with UNDC in order to explore fully the feasibility of what was identified as "option 3" in the 1992 report (E/ICEF/1992/AB/L.9, paras. 104 (b), 107 and 111). Under this option, UNICEF would accept the UNDC offer to retain UNICEF House under significantly improved financial conditions, with eventual ownership rights, and seek to identify a second headquarters building in close proximity, which would offer UNICEF suitable long-term expansion space for the future at reasonable cost and also offer the possibility of future ownership.

5. The Executive Director also wishes to inform the Executive Board that on 28 September 1992, he received a formal written offer from the Government of Austria stating that Austria would make available in Vienna the office space necessary for UNICEF headquarters at a symbolic rent of one Austrian schilling

per year. The Government of Austria would also grant the same immunities and privileges accorded to the international organizations presently housed in the Vienna International Centre (the International Atomic Energy Agency, the United Nations Industrial Development Agency and the United Nations Office at Vienna). In response, the Executive Director wrote to the Permanent Representative of Austria to the United Nations seeking clarification on a number of matters, including the difference in United Nations remuneration levels between New York and Vienna and removal costs, so that the offer could be fully assessed and compared with other offers. On 23 November 1992, the Permanent Representative of Austria to the United Nations informed UNICEF that because of time constraints, the Austrian authorities would be unable to submit a substantial detailed proposal by the deadline required for inclusion in the present report. He assured UNICEF that "Austria remains principally prepared to host UNICEF headquarters, or any part thereof, in Vienna in the future and in the case that the Executive Board cannot reach a decision on any of the presently tabled options to locate the UNICEF headquarters in the New York area and instead decides to include also a transatlantic option into its search for a permanent location, Austria would, if given the necessary time and provided it was invited by UNICEF, readily submit detailed proposals for the construction and for any other relevant aspects of a possible relocation of UNICEF headquarters to Vienna." The offer from the Government of Austria is reviewed and discussed more fully in paragraphs 50-52 below.

6. Lastly, in response to paragraph 1 (b) of decision 1992/35 (E/ICEF/1992/14), the secretariat has reviewed and studied the non-financial implications of the possibility of moving most or all of central headquarters from Manhattan in order to assess fully the consequences of such a relocation.

7. The conclusions and results of the efforts described above and the results of the investigation and review of the offer from the Government of Austria are contained in paragraphs 50-52 below. The Executive Director's recommendations, which have been based on a very careful assessment and review of all of the factors involved, including financial and non-financial aspects, are contained in paragraphs 79-82 below.

I. CURRENT UNICEF HEADQUARTERS AND GREETING CARD AND RELATED OPERATIONS OFFICE ACCOMMODATION AND WAREHOUSE/STORAGE SPACE

A. Current office and warehouse/storage space

8. Table 1 shows the details of the office and warehouse/storage space currently being leased for UNICEF headquarters and the Greeting Card and related operations (GCO) in New York City and surrounding areas. Except for an increase of 15,195 gross rentable square feet at One Dag Hammarskjöld Plaza in New York City, representing one additional floor, which increased the total office space at this location to 38,723 square feet, the figures given in the table are identical to those shown in table 1 of the 1992 report (E/ICEF/1992/AB/L.9). The rental of this additional office space to meet UNICEF critical short-term needs was approved by the Executive Board in 1992, decision 1992/35 (E/ICEF/1992/14).

Table 1

SUMMARY OF CURRENT UNICEF HEADQUARTERS AND GREETING CARD AND RELATED OPERATIONS OFFICE ACCOMMODATION AND WAREHOUSE/STORAGE SPACE AS OF NOVEMBER 1992

	Number of rentable square feet			Expiration date of lease	Estimated number of staff accommodated
	Office	Warehouse/ storage	Total		
UNICEF headquarters					
1. UNICEF House 3 United Nations Plaza NYC	180 491	-	180 491	30 June 2002	700
2. 1 Dag Hammerskjöld Plaza NYC	38 723	-	38 723	31 Aug. 1995	120
3. Long Island City Queens	-	26 000	26 000	31 July 1993	-
4. Park Avenue South NYC	-	1 679	1 679	N.A. a/	-
Subtotal (1-4)	219 214	27 679	246 893		820
GCO					
5. 333 East 38th Street NYC	40 000	-	40 000	31 Dec. 2003	93
6. Secaucus N.J.	-	44 000	44 000	30 June 1994	38
Subtotal (5-6)	40 000	44 000	84 000		131
TOTAL (1-6)	259 214	71 679	330 893		951 b/

a/ Not applicable as UNICEF occupies this space under a United Nations lease.

b/ See paragraph 13 below.

B. Existing UNICEF lease obligations

9. With regard to the space leased at UNICEF House (Three United Nations Plaza) and at 333 East 38th Street, the existing lease obligations are as follows: as indicated in table 1 above, some 67 per cent of the total space (about 220,500 rentable square feet) is covered by leases that expire in the years 2002 and 2003. The lease for UNICEF House, covering 180,491 rentable square feet, expires on 30 June 2002, and the lease for 333 East 38th Street, covering 40,000 rentable square feet, expires on 31 December 2003. There is no provision in the UNICEF House lease for early termination during its initial 15-year term, which commenced on 1 July 1987, nor is there any early termination provision in the lease covering the premises located at 333 East 38th Street occupied by GCO. However, both leases contain provisions that would allow UNICEF, under certain conditions, to assign the leases or sublet the premises.

10. The financial analysis and comparisons given later in the present paper have been based on the assumption that if UNICEF were to relocate its headquarters, the effective date of the relocation would be 1 January 1995. Therefore, the unexpired portion of the two leases would be seven and one half years for UNICEF House and nine years for GCO. Moreover, whatever lease obligations cannot be assumed, they have to be considered in relation to the possible long-term savings of alternative premises.

11. UNICEF House is a very modern, "high-tech" building, located in the United Nations development district in close proximity to United Nations Headquarters, and any prospective future tenant would not be subject to New York City real estate taxes, provided the tenant enjoys the same real estate tax exemption status as UNICEF. For those reasons, it is likely that it would be possible for UNICEF either to assign the lease or to sublet most, if not all, of the space at UNICEF House to another tax-exempt tenant. Although the space leased by GCO at 333 East 38th Street is not exempt from New York City real estate taxes, the average base rental cost for this space, which has been renovated and improved considerably by UNICEF, over the term of the lease (1991-2003) is approximately $26.00 per square foot, which is quite reasonable for a midtown Manhattan location close to United Nations Headquarters, even in the current depressed real estate market.

II. LONG-TERM STAFF AND SPACE PROJECTIONS

12. Table 2 shows UNICEF headquarters estimated long-term staffing and warehouse/storage needs, including GCO, projected to the year 2010. The figures given in the table are basically the same as the one included in table 2 of the 1992 report (E/ICEF/1992/AB/L.9). The only changes concern an increase of 15,195 rentable square feet of office space for the year 1992 under UNICEF headquarters to reflect the additional floor rented at One Dag Hammarskjöld Plaza (see para. 8 above), a reduction of 400 square feet of warehouse/storage space in 1992 under the GCO column, a decrease in the number of "staff/occupants" in 1995 under column 2 from 842 to 820 and a decrease in column 8 from 1,000 to 978. For the purpose of the continuation of the study, all other data remain the same as previously projected.

Table 2

ESTIMATED STAFFING AND OFFICE SPACE AND WAREHOUSE/STORAGE NEEDS FOR THE PERIOD 1992-2010

Year	UNICEF headquarters			GCO			Total			
	Number of staff/ occupants	Number of rentable square feet		Number of staff/ occupants	Number of rentable square feet		Number of staff/ occupants	Number of rentable square feet		Total
		Office	Warehouse/ storage		Office	Warehouse/ storage		Office	Warehouse/ storage	
1	2	3	4	5	6	7	8	9	10	11
1992 (Nov.) a/	820	219 214	27 679	131 b/	40 000	44 000	951	259 214	71 679	330 893
1995	820	233 000	17 000	158	45 000	60 000	978	278 000	97 000	375 000
2000	957	271 000	48 000	203	50 000	65 000	1 160	323 000	113 000	436 000
2010	1 245	361 000	58 000	305	75 000	75 000	1 550	436 000	133 000	569 000

a/ See table 1 above.

b/ Includes approximately 30 production workers provided to GCO by an agency. The number of GCO production workers varies throughout the year depending on the workload.

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13. The staff/occupant figures given in table 2 for 1992 in columns 2, 5 and 8 are estimates of actual occupants as of December 1992. A breakdown by location of the "staff/occupants" figures is given in table 1 above. The term "staff/occupants" has been used because not all of the occupants of the different premises are actually UNICEF staff members. For example, the figure 131 in column 5 includes 30 production workers who are provided to GCO by an agency and are not UNICEF staff members. The figure 820 in column 2, shown for the year 1992 under "UNICEF headquarters", includes some staff from other agencies such as the World Health Organization, the United Nations Educational, Scientific and Cultural Organization and the New York Metropolitan Committee for UNICEF, as well as travel agency staff, who are not included in the UNICEF staffing tables. In addition, the "staff/occupant" figures for UNICEF headquarters for the year 1992 (column 2) include core staff (established posts), headquarters-based project posts (financed from general resources or supplementary funds), short-term General Service staff, some short-term Professional consultants and staff awaiting reassignments who are temporarily assigned to headquarters.

III. RESULTS OF FURTHER NEGOTIATIONS AND STUDY OF NEW AND REVISED PROPOSALS

14. In accordance with Executive Board decision 1992/35 (E/ICEF/1992/14), during the past several months UNICEF has undertaken further negotiations with various parties in an effort to improve the financial and non-financial conditions of several of the offers already received. In addition, some new offers were received and evaluated, including the offer from the Government of Austria. These negotiations and offers are described in detail in the paragraphs that follow.

A. Discussions and negotiations with the United Nations Development Corporation and the New York City Economic Development Corporation

15. As noted in paragraph 4 above, UNICEF established a close working relationship with UNDC in order to explore fully the feasibility of what was identified as "option 3" in the 1992 report (E/ICEF/1992/AB/L.9). Under this option, UNICEF would accept the UNDC offer to retain UNICEF House under significantly improved financial conditions, with eventual ownerships rights, and seek to identify a second "headquarters building" in close proximity, which would also possibly offer UNICEF the opportunity of some form of future ownership. The second building would be sufficiently large to accommodate the long-term projected office space needs of UNICEF for the next 20-25 years. NYCEDC and UNDC are willing to modify their proposal with respect to the future ownership interest of UNICEF in UNICEF House to take into account that the building could ultimately be occupied by the United Nations or United Nations agencies other than UNICEF. UNICEF (or the United Nations) would retain its ownership interest in the building provided that the building is fully occupied by UNICEF or the United Nations and that UNICEF continues to maintain its headquarters operations in New York City.

16. Since the preparation of the 1992 report in May 1992, NYCEDC and UNDC have made further concessions with respect to UNICEF House. These concessions are in addition to those already detailed and described in paragraphs 31-39 of document E/ICEF/1992/AB/L.9. Paragraphs 17-36 below describe the latest comprehensive offer from NYCEDC and UNDC as of 26 January 1993, which includes those concessions offered earlier with respect to UNICEF House, as well as proposals for expansion space.

UNICEF House

17. Under the joint NYCEDC/UNDC proposal, UNICEF would maintain its headquarters at UNICEF House for the long term, with the following modifications to its current lease agreement with UNDC (the "UNICEF House lease"):

(a) Under the current UNICEF House lease, UNICEF pays base rent on an escalating scale, with a base rent of $39.50 per square foot at the end of the current UNICEF term in 2002, and of $47.50 per square foot at the end of its extension term in 2017. Unless modified by agreement, these escalating base rents and all other lease terms continue in effect. In lieu of escalating rent arrangements now in effect, NYCEDC/UNDC are prepared to offer UNICEF the opportunity to lease its space in UNICEF House on substantially more favourable economic terms, as well as to obtain ownership of its space when the UNDC bonds are paid, as described below. Under this new arrangement, the annual base lease payment of UNICEF for the space it currently occupies would be permanently fixed at $32.50 per square foot. The $32.50 per square foot represents a reduction of $3.00 per square foot in the base lease payment specified in the last formal proposal to UNICEF, dated 12 June 1992, with the City of New York in effect providing $2.00 of this reduction and UNDC providing $1.00, based on its recent refinancing of its outstanding bonds. At an annual base lease payment of $32.50 per square foot, they have indicated that UNICEF would realize a savings over the next 20 years of approximately $39 million, as compared with what UNICEF has previously estimated it would otherwise be obligated to pay under the current UNICEF House lease;

(b) To provide UNICEF with additional space in UNICEF House, UNDC has authorized the conversion of the fourteenth and fifteenth floors of the building from apartments to office space for lease to UNICEF. Should UNICEF decide to add this space to its demised premises, UNDC will:

(i) Lease the space to UNICEF for a permanent annual base lease payment of $28.00 per square foot, commencing on the date that the apartments are fully vacated;

(ii) Pay up to $1.25 million of the costs of converting the apartment floors to office space that is comparable in quality to the rest of UNICEF House;

(iii) Initially pay such costs (if any) beyond the $1.25 million, with the UNICEF base lease payment for all its space in UNICEF House increased by $.50 per square foot per each $1 million of such additional costs. With a base lease payment of $28.00 per square foot for the fourteenth and fifteenth floors, and based on conversion costs not

exceeding the $1.25 million, UNICEF's "blended" base lease payment for all space in the building would be approximately $32.00 per square foot;

(c) Article 40 of the UNICEF House lease, under which UNICEF can be required to pay up to $2.00 per square foot in additional annual rent, would be eliminated. Article 42 of the UNICEF House lease, which provides for discretionary reductions in UNICEF rent from certain available annual surpluses of UNDC, would also be eliminated;

(d) The term of the UNICEF House lease would be extended to at least 2017. If UNICEF wishes the benefits of the ownership option described below, then the lease would be further extended until the date when all of the UNDC bonds are paid, now scheduled to be 1 July 2026, which is the date when ownership of the property would be transferred as described below. Article 53 on lease cancellation would be eliminated.

18. On the expiration of the UNDC leasehold interest in UNICEF House and if requested by UNICEF (or the United Nations), the City of New York and UNDC would transfer to UNICEF (or the United Nations) all ownership interest in the building (excluding both the garage space and the apartment floors, except that the ownership interest would include the apartment floors if they have been converted to office use and leased to UNICEF), provided that the building is then and remains fully occupied by UNICEF or the United Nations and that UNICEF continues to maintain its world-wide headquarters in New York City. If UNICEF so desires, the urban plaza adjacent to UNICEF House could also be included in the UNICEF ownership interest, with UNICEF being required to maintain and operate the plaza as a public space in accordance with all applicable provisions of the New York City Zoning Resolution. On obtaining the ownership interest, UNICEF will not be required to make any further payments to UNDC or the City with respect to this valuable property (except for normal city water and sewer charges and the like). As described in their letter of 17 April 1992, the transfer of the City's ownership interest will require approval under the City's Uniform Land Use Review Procedure and approval of the terms of the transfer by the Mayor after a hearing. Mayor David Dinkins has previously stated that he fully supports the ownership transfer.

Expansion property

19. NYCEDC and UNDC are prepared to meet the expansion needs of UNICEF by acquiring for lease to UNICEF an existing first-class office property in the area of UNICEF House. As with UNICEF House, UNICEF will have the opportunity to own the expansion property at the end of the lease term without being required to make any purchase payment at that time. As described below, certain key aspects of the proposal with respect to the UNICEF expansion space will apply regardless of which property being considered is ultimately acquired:

(a) Master lease-purchase agreement. UNDC and UNICEF would enter into what is in effect a master lease-purchase agreement (the "master lease") under which UNDC as landlord would lease to UNICEF all of the acquired space, with UNICEF having the opportunity to obtain ownership of the space at the end of the lease term. They would expect that the division of responsibilities

between UNDC and UNICEF with respect to operation, maintenance and repair of the expansion space would be substantially the same as under the UNICEF House lease;

(b) Lease term. It is expected that the term of the master lease (and the UNICEF lease payment obligations thereunder) would commence on the date of substantial completion of tenant improvements in the expansion space that UNICEF initially requires (approximately 100,000 square feet), which is expected to occur not later than 1 January 1995; the lease term would expire on the date when the UNDC bonds are paid, which is expected to occur on 1 July 2026. Substantial completion of initial tenant improvements by no later than 1 January 1995 assumes that the UNDC purchase of the expansion property will close by approximately 30 September 1993, a realistic schedule which is based on the assumption that UNICEF would accept the NYCEDC/UNDC proposal by May 1993 and absent any special circumstances related to the acquisition of the property;

(c) Tenant improvement allowance. UNDC will provide UNICEF with a tenant improvement allowance of $35.00 per square foot with respect to the expansion space, to be applied as such space becomes available and is required for occupancy. Consistent with its financing capabilities, UNDC will, at the request of UNICEF, pay for certain additional expansion space improvements and attendant relocation costs, with an increase in the UNICEF base lease payments on all expansion space equal to approximately $.60 per square foot for each $1 million of such costs;

(d) Lease payments. Under the terms of the master lease, UNICEF will be responsible from the date of term commencement for lease payments on all of the expansion space. To the extent that any of the expansion space is initially occupied by other tenants, the required lease payments by UNICEF would in effect be subsidized by an amount equal to rent collected from them. The estimated base lease payments of UNICEF would be exclusive of additional lease payments for operating expenses and tenant electricity, with UNICEF required to make annual additional lease payments equal to operating expenses paid by UNDC as owner of the property and electricity charges according to building practices and based on actual or estimated consumption;

(e) Real property taxes. The City of New York has agreed in principle that the expansion space occupied by UNICEF pursuant to this joint proposal will be exempt from New York City real property taxes or payments in lieu of taxes, providing UNICEF with a major economic benefit;

(f) Ownership. They are prepared to transfer the ownership interest in the UNICEF expansion space to UNICEF (or the United Nations) on expiration of the master lease term, when the UNDC bonds are paid, on the same conditions as are applicable to the transfer of ownership in UNICEF House, i.e. the space is then and remains fully occupied by UNICEF or the United Nations and UNICEF continues to maintain its world-wide headquarters in New York City. As would be the case with UNICEF House, UNICEF would obtain this valuable ownership interest without any additional payments to UNDC or the City beyond normal charges for water and the like.

20. In September 1992, UNDC investigated potential acquisition alternatives in midtown Manhattan to accommodate the projected expansion space requirements of UNICEF, which would require, in addition to the current available space at UNICEF House (about 200,000 rentable square feet including the fourteenth and fifteenth floors), approximately 240,000 square feet to meet the projected requirements of UNICEF through the year 2010. The basic criteria established for the UNICEF requirements were:

(a) UNDC must be able to acquire an outright ownership or condominium interest;

(b) UNICEF, given current conservative growth projections, requires a minimum of 240,000 rentable square feet to accommodate long-term growth through the year 2010;

(c) The UNICEF expansion requirements should fit into a single building;

(d) The expansion building should be in close proximity to UNICEF House and the United Nations Headquarters site.

21. On 26 October 1992, UNDC submitted a report to UNICEF, identifying 37 potential acquisition alternatives, including seven which had been identified earlier by UNICEF. From the initial list of 37 alternatives, the field was subsequently reduced to five priority alternatives. After a further review in consultation with UNICEF, the list was narrowed down to the three highest-ranked possibilities, taking into account various criteria including, inter alia, the purchase situation, building size and expansion capability, size and configuration of floors, suitability for UNICEF requirements, technical capabilities for computer and telecommunications needs, distance from UNICEF House, security requirements and space availability. For the purpose of the present report, these three possible alternatives will be referred to as buildings "A", "B" and "C". Since UNDC is still negotiating with the owners of these three properties, it would not be advisable to identify them specifically at this time. All three of these buildings are located in close proximity to UNICEF House, with building "A" being the closest both to United Nations Headquarters and UNICEF House. After a further review and visits to the three buildings by the UNICEF project team, it was determined that with regard to overall suitability, location and taking all other factors into account, on balance, building "A" seemed best to meet the present and future needs of UNICEF. This alternative involves the possible purchase of an entire building including remaining undeveloped air rights that could be used to expand the building in the future, which under the terms of the overall UNDC offer, UNICEF would eventually own outright. It was determined after further careful review that neither building "B" nor "C" would be as good a choice, as they do not offer the important advantages of building "A" desired by UNICEF for itself as well as for possible use by the United Nations.

22. Building "A" would involve the acquisition of a building comprising approximately 217,000 rentable square feet. The key advantages of this alternative are as follows:

(a) Its location very near United Nations Headquarters is ideal;

(b) The entire property would be acquired, providing UNICEF with the opportunity to have the building publicly identified with UNICEF and ultimately to own and control all of its expansion space;

(c) The acquisition will include approximately 140,000 square feet of unused development rights, available for future expansion, subject to normal New York City approval processes at the time UNICEF may require such expansion;

(d) The existing building contains facilities such as an auditorium, meeting rooms and a cafeteria, which make it attractive for UNICEF and other United Nations users;

(e) The building is equipped with under-floor ducts, providing UNICEF with flexibility for its computer, telephone and electrical installations;

(f) The building offers better security possibilities than the other alternatives.

23. Some of the disadvantages of this alternative are as follows:

(a) Significant renovation costs would be required due to age (1960) of the building and the presence of asbestos;

(b) Payment now for development rights that may never be used;

(c) Initial occupancy by UNICEF will result in surplus space with the possibility of no tenants paying rent that would help to subsidize the acquisition cost.

24. Building "B" would involve the acquisition of a condominium interest in approximately 262,000 rentable square feet in a building constructed in 1962 that has a total of approximately 1 million square feet of office space. The space acquired would include 14 floors comprised of up to approximately 109,000 square feet which is currently vacant and would be available for occupancy by UNICEF in 1995. The balance of approximately 153,000 square feet of space is leased to another tenant until December 1998.

25. The key advantages of this alternative are as follows:

(a) Its combination of vacant and occupied space meets UNICEF needs for staged expansion while in effect providing a subsidy for the space that UNICEF does not require initially;

(b) The building has an average floor size of approximately 19,000 rentable square feet, ideal for UNICEF purposes;

(c) Like building "A", this building is equipped with under-floor ducts;

(d) UNDC anticipates obtaining certain rights to acquire additional space in this building at a later date. Assuming such rights are obtained, it could easily meet any expansion space requirements UNICEF might have in the future, beyond what is currently projected. Additional space in the building could also be used to meet the needs of other key United Nations agencies, providing

the United Nations community as a whole with additional space alternatives and the opportunity for additional operating efficiencies.

26. Some of the disadvantages of this alternative are as follows:

(a) Of the buildings offered, it is the most distant from UNICEF House;

(b) UNICEF would have a relatively minor interest (24 per cent) in the building, making it more difficult to command the level of services it may require;

(c) The level of security in a condominiumized building may be compromised;

(d) Having a non-profit tenant in a portion of the space increases the cost of financing at the same low interest rates as UNICEF enjoys with tax-exempt bonds;

(e) If the tenant failed to pay its rent, UNICEF would still be liable for its financial obligations under the bonds;

(f) Occupancy of the tenanted space by others would preclude UNICEF from access to this space if it were needed prior to the date forecast.

27. Building "C" would involve the acquisition of a condominium interest in approximately 277,000 rentable square feet in a building of some 605,000 gross square feet. The property consists of two connected buildings, with the larger and newer (1976) building located to the north of the older (1962) and smaller building. UNDC initially explored the possibility of acquiring only the newer of the two buildings, but the owner has indicated an unwillingness to pursue this approach. As an alternative, UNDC has suggested the purchase of a condominium interest in the upper 19 floors of the building. Of the 277,000 rentable square feet, up to approximately 100,000 rentable square feet are currently vacant and would be available for occupancy by UNICEF in 1995 with the remaining space leased to other tenants for varying terms through 2002.

28. The key advantages of this property are as follows:

(a) Its location, only one and one half blocks from UNICEF House, is very good;

(b) As at building "B", UNICEF would have the opportunity to occupy its space in this building in stages, with UNICEF receiving lease payment subsidies for the space that it does not initially require;

(c) The size of this property makes it ideal for joint occupancy by UNICEF and one or two other United Nations agencies. Should another such agency be interested, UNDC should be able to acquire the entire property now on favourable terms, giving UNICEF and the United Nations the opportunity ultimately to own and control a major office property near United Nations Headquarters;

(d) The owner is motivated to sell and negotiations have progressed easily with reasonable price expectations.

29. The key disadvantages of this property are as follows:

(a) The combination of the two buildings created some uneven floors where the two buildings meet;

(b) The floor layout is not as efficient as in buildings "A" or "B";

(c) A condominium interest will require segregation of common services and may, as in building "B", compromise security of UNICEF space;

(d) This building, unlike buildings "A" or "B", does not have under-floor ducts and management of data and telephone lines will be more difficult;

(e) As in building "B", if any tenant fails to pay its rent UNICEF will still be liable for its financial obligations;

(f) Access to tenant-occupied space will be subject to the tenant's lease expiration.

30. On 26 January 1993, a report was provided to UNICEF by UNDC describing estimated occupancy costs per square foot of the three priority alternatives based on its estimates of total acquisition costs, certain financing assumptions and first year operating costs. The "total acquisition cost" included:

(a) An estimate of an expected acquisition price;

(b) Building renovation costs, including such items as asbestos removal;

(c) Operating costs and debt service for one year from the assumed date of acquisition, 1 January 1994, although actual occupancy of the premises would not take place until about 1 January 1995;

(d) Tenant improvement costs equivalent to $35.00 per square foot for the space initially to be occupied by UNICEF in January 1995 and which varied from building to building.

31. UNICEF was advised that the per square foot occupancy cost estimates were preliminary, because UNDC, although having had several discussions with the representative of each building, has made no final offers in order to continue negotiations as UNICEF considers which alternative to select.

32. The 1995 estimated preliminary total per square foot lease rates, including base lease cost and operating expenses (but not including tenant electric), are estimated at $48.14 for building "A", $29.40 for building "B" and $39.99 for building "C". However, because of the preliminary nature of these estimates, UNDC advised that the final negotiated costs could be different, although UNDC believes that the estimates provided will not be exceeded and may even be improved upon. In addition, in-depth engineering studies of the alternatives have not yet been undertaken, the eventual results

of which may very likely affect the final costs and ultimately the annual obligation of UNICEF.

33. UNDC has advised UNICEF that the acquisition price proposed by the owners of the building "A" property would result in an estimated annual base lease payment by UNICEF of $37.90 per rentable square foot, exclusive of operating expenses and tenant electricity. While UNDC submitted a counter-offer that would have resulted in a significantly lower base lease payment, it was recently informed by the property's authorized sales representative that the owners have declined the UNDC counter-offer and are unwilling at this time to reduce their original asking price.

34. If UNICEF decides to go forward with building "A", the City of New York and UNDC will proceed towards acquisition of this property. They believe that they will be able eventually to acquire this property on terms (including all related costs) that could enable them to offer the space to UNICEF at a base lease payment of approximately $31.11 per rentable square foot. They estimate that approximately $3.00 of this estimated $31.11 per square foot base lease payment is reasonably attributable to the value of the unused development rights that would be included in the acquisition. Operating expenses at this property are currently in excess of $9.00 per square foot after subtracting expenses that appear unique to the current owners. Using an assumed escalation of 4 per cent annually in current operating expenses, they estimate that UNICEF operating expenses would be approximately $10.23 in 1995, for a total estimated 1995 lease payment, under the more favourable of the two scenarios described above, of $41.34 per square foot (exclusive of tenant electricity). As their calculations with respect to this property assume all vacant space, the estimated base lease payments specified above include the $35.00 per square foot tenant improvement allowance applied to all space from the outset. It is possible that final acquisition arrangements could include one or more of the current owning groups remaining in occupancy for some period on a lease basis.

35. The long-term cost estimates relating to building "A" compared to buildings "B" and "C" and other alternatives, are given in table 4.

Summary

36. UNDC and NYCEDC believe that this joint proposal to accommodate UNICEF headquarters in UNICEF House and a neighbouring property represents a unique opportunity for UNICEF. Under this proposal, UNICEF would be able:

(a) To maintain its headquarters on a permanent, cost-effective basis at UNICEF House, a building specially designed to meet the needs of UNICEF and ideally located across from United Nations Headquarters;

(b) To avoid the very sizeable costs, both tangible and intangible, associated with relocation;

(c) To meet its future expansion needs in first-class space in a companion property located near its current headquarters;

(d) To obtain ownership of its headquarters space in the heart of New York City, without any acquisition payment beyond payments required under lease agreements that will terminate when the UNDC bonds are paid.

B. Discussions and negotiations relating to offers received covering proposals located in the Borough of Queens in New York City and the City of New Rochelle in Westchester County

Borough of Queens

37. As noted in paragraph 3 above, in an effort to improve the most attractive offers already received, further negotiations were undertaken with respect to what were identified in the 1992 report as proposal numbers 10 (Queens), 21 (Queens) and 20 (Westchester County). The negotiations with regard to the two proposals in Queens did not result in any significant improvement over their previous offers, especially when compared to the revised Westchester County proposal. It was also determined that a relocation outside of Manhattan would most likely result in a newly built office building, the cost of which would be funded with tax-exempt bonds that are generally available to all local municipalities. The amortization of these bonds over a 30-year period would be similar to that offered by UNDC and would be the annual obligation paid by UNICEF which upon bond maturity would result in transferring ownership of the property to UNICEF. Therefore, considering that these costs would be relatively the same in Queens and Westchester County, the criteria for deciding which location would be best for UNICEF would depend on comparing the non-financial considerations for Queens and Westchester County and the contributions to be made by each proposal to UNICEF, which consisted of more than having an office building constructed for UNICEF. As described in paragraphs 38-49 below, the Westchester County proposal contained the most attractive non-financial changes to the original proposal and, therefore, is considered the preferred location outside of Manhattan.

Westchester County

38. Proposal number 20 is an offer from the City of New Rochelle (hereafter referred to as the "City" or "New Rochelle") in Westchester County, New York. Intensive negotiations and discussions between UNICEF and the New Rochelle City authorities resulted in significant improvement to the offer originally received late last year, both with respect to projected occupancy costs and other financial and non-financial incentives. In order to address more adequately the existing and future needs of UNICEF, the City of New Rochelle has submitted a completely revised comprehensive proposal. Because the New Rochelle proposal is the most attractive and cost-effective offer received for a site in the New York area and outside of Manhattan, a summary of the details of the proposal is included in the present report.

39. The revised New Rochelle offer proposes the creation of a United Nations community district. As a municipality, the City has determined that such a district will enhance the quality of life in New Rochelle and contribute to its long-term objectives of creating an international community. To this end, the City has prepared and submitted a comprehensive development plan featuring the

UNICEF headquarters as the cornerstone of such a district. In addition, the City has earmarked numerous parcels of land in close proximity to the UNICEF site for the construction of approximately 1.4 million square feet of additional new office space for other United Nations agencies. In December 1992, New Rochelle submitted a proposal to the United Nations Development Programme (UNDP), at its request, with similar terms and conditions as offered to UNICEF. As part of this United Nations community district, land would be available for the construction of a specialized conference centre for use by United Nations agencies and others for international conferences. The various agencies could share centralized services, thus reducing costs through economies of scale.

40. The revised proposal features some other significant new additions, such as the inclusion of a historic landmark building located near New Rochelle's existing public library for use by UNICEF and the public at large as a Children's International Library. The City has also addressed the identification of UNICEF participation with and utilization of New Rochelle's academic community and facilities, including Iona College, the College of New Rochelle and the public school system as a whole. The City had informed UNICEF that the creation of a branch of the United Nations International School is supported by the school's Director and his advisers, and the City is prepared to provide suitable space for this facility. The proposal from the City of New Rochelle is enthusiastically supported by Westchester County and by the community at large, including the faculties and students of the educational institutions in the City, the medical, legal and professional business establishments and nearby towns and communities in Westchester County. There has been a genuine outpouring of widespread community support and encouragement for the relocation of UNICEF to New Rochelle from many hundreds of residents, including children and many groups and institutions.

41. Whereas the original New Rochelle proposal envisaged the construction of one building of 575,000 square feet, which would be specifically designed to accommodate UNICEF long-term office and warehouse/storage requirements, the revised proposal now provides for the construction of an office building consisting of 440,000 square feet, which, according to current projections, should meet UNICEF office space requirements until the year 2010 or beyond (see table 2 above) and a separate warehouse/storage building consisting of 135,000 square feet, which would be constructed on a 1.3 acre site within one mile of the office building. The result of this change reduces the original cost of the proposed office building by approximately $16 million. The office building would include telecommunications facilities and would be built to the specific requirements of UNICEF. Like the office building, the warehouse building would eventually be owned by UNICEF and the construction would be financed by the utilization of tax-exempt bonds. There would be a minimal ground rent to be paid over the life of the bonds. New Rochelle has available 80,000 square feet of vacant land for development of the UNICEF building with ground rent for the first 10 years limited to $0.50 per foot of occupied space. With respect to the warehouse/storage building, another alternative would be for the City to seek to acquire an existing facility that could be leased to, or purchased by, UNICEF. Another possibility would be for UNICEF itself to lease warehouse facilities somewhere in the area. Since the warehouse requirements of UNICEF are not included in the other proposals set

out in this paper, the cost estimates for this need are excluded from the various cost comparisons contained in the present document.

42. New Rochelle has indicated that using its own Industrial Development Agency (IDA) for financing all of the facilities required by UNICEF would yield an economic advantage over other such agencies by charging no agency fee, resulting in a savings that would be passed on to UNICEF. The use of IDA bonds would also result in sales tax savings on construction materials, which would reduce the overall cost to UNICEF. The City, after consultation with its municipal bond financial advisers, has proposed several possible financing schemes for the proposed UNICEF headquarters, two of which would allow for a low payment level during the initial years of the lease, which would help to alleviate some of the financial concerns associated with the current remaining lease obligations at UNICEF House and at 333 East 38th Street.

43. One proposal contemplates no lease payments for the first three years (during construction and installation) and then relatively low payments from 1997 until the year 2003, which is six months after the expiration of the UNICEF House lease. Another proposal would require no lease payments for debt or interest until the year 2003. The City is also currently investigating the possibility of a 40-year period of bond financing, instead of 30 years. If UNICEF so desires, the level of bond financing could be increased to provide up to about $16 million to cover the costs of relocation, furnishings, workstations and other build-out costs not included under the proposal and a contingency fund to cover any unforeseen requirements. The financial analysis of the revised New Rochelle proposal is summarized in table 3 which provides the nominal cost and net present value cost for each of the proposed New Rochelle financing schemes with assumptions applied to each regarding the probability of removing part, if not all, of the obligations of the leases at UNICEF House and 333 East 38th Street. It should be noted that all figures in the present document relating to the New Rochelle proposal include the $16 million additional funding provision referred to above and that for comparison purposes, when reviewing all the alternatives available to UNICEF, the proposal which considered that bond payments would begin in 1997 was used.

44. Westchester County and the City of New Rochelle have offered to assist in facilitating bus transportation for employee access to New Rochelle, both within Westchester County and to and from New York City; they have indicated that transportation access to New Rochelle is most efficient from all directions either by road and highway, or by commuter train or AMTRAK. The New Rochelle Railroad Station is adjacent to the proposed UNICEF site and the trip to midtown Manhattan takes 30 minutes. A heliport can be provided on the roof of the building, allowing easy access to the nearby airports and New York City. The time distance to Kennedy International Airport is approximately 40 minutes. The City has also offered to provide convenient municipal parking adjacent to the project for UNICEF employees and visitors, at reduced special rates.

Table 3

SUMMARY OF VARIOUS PROPOSALS BY THE CITY OF NEW ROCHELLE FOR THE PERIOD 1995-2026

(In millions of United States dollars)

Proposal	Total nominal cost	Net present value (NPV) a/	Difference in NPV
Bond payments begin 1997			
. Assuming no subleasing of UNICEF House or 333 East 38th Street	533.5	154.7	44.2
. Assuming subleasing of UNICEF House and 333 East 38th Street at 50 per cent of the present lease costs	494.0	133.1	22.8
. Assuming no remaining lease obligation at UNICEF House and 333 East 38th Street	463.8	110.5	-
Bond payments begin 2003			
. Assuming no subleasing of UNICEF House or 333 East 38th Street	572.7	150.8	44.2
. Assuming subleasing of UNICEF House and 333 East 38th Street at 50 per cent of the present lease costs	533.2	129.4	22.8
. Assuming no remaining lease obligation at UNICEF House and 333 East 38th Street	503.0	106.6	-

a/ "Present value" figures in this case take into account the value of money at an estimated interest rate of 10 per cent over the projected period of time. The technical definition of this term as it relates to the total financial obligations is "the costs expressed in 1995 United States dollars of the total annual costs for the period 1995-2026 discounted at the rate of 10 per cent".

45. The City of New Rochelle has designated a well-known housing corporation as the preferred sponsor for the development of 360 units of affordable rental housing, to be located one block from the proposed UNICEF site. Other parcels of land owned by the City in the immediate area will be made available for additional housing units based on future demand. The City's Department of Development will assist employees of UNICEF and the real estate community in finding suitable housing (rental and/or owned) in the City of New Rochelle and throughout Westchester County. According to the City, many banks in New Rochelle have indicated a willingness to assist actively UNICEF employees with their banking needs in general and financial assistance for housing in particular.

46. The President of the New Rochelle Hospital Medical Center is prepared to offer to UNICEF a new, low-cost health care programme for its employees. Three hospitals in Westchester Couhty, including the New Rochelle Hospital Medical Center, have developed a plan together with some 1,000 physicians which will allow the hospitals and physicians to have direct contracting capabilities with the employees, thus providing quality medical services at a discounted rate.

47. The City of New Rochelle has also agreed to make available various other economic and other incentives to UNICEF under its proposal, which will include, inter alia:

(a) Options on other land within the special United Nations community district for the construction of up to 1.4 million square feet of office space or conference facilities for UNICEF and other United Nations agencies;

(b) Availability of air rights above the proposed 1,000 space commuter parking garage at the railroad station for an additional office tower which, if utilized, will be made available on economic terms comparable to those being offered with respect to the proposed UNICEF building;

(c) Special reduced utility rates from the New York State Power Authority;

(d) No commercial occupancy tax, which does not apply in the City of New Rochelle;

(e) Discount on rubbish removal and a recycling programme;

(f) Provision of 40,000 square feet of temporary ("swing") office space on highly attractive terms.

48. During the construction period, the City is also prepared to expend a minimum of $1 million of its Community Development Block Grant money as funding for streetscaping and improvement of pedestrian access to the parking garage and railroad station.

49. The City has estimated the value of these additional incentives as follows:

	(United States dollars)
Elimination of all sales and compensating use taxes on materials used in constructing the project, as well as for various system costs within the building	1 140 000
Savings on financing fees	210 000
Community Development Block Grant	1 000 000
Donation of library building	450 000
Parking savings (per year, based on 450 vehicles)	378 000

C. Offer from the Government of Austria

50. As noted in paragraph 5 above, on 28 September 1992, the Executive Director received a formal written offer from the Permanent Representative of Austria to the United Nations stating that Austria would make available in Vienna the necessary office space for UNICEF headquarters at a symbolic rent of one Austrian schilling per year. The letter referred specifically to paragraph 1 (a) of decision 1992/35 (E/ICEF/1992/14) in which the Board requested the Executive Director to continue to negotiate and refine the proposals already submitted and to evaluate any other attractive additional proposals that might be offered. The letter also referred to the statement of the Austrian Foreign Minister on 27 September 1991 to the forty-sixth session of the General Assembly in which he announced that Austria, in order to enable a further extension of the United Nations activities in Vienna, had decided to construct at its own expense additional office space at the Vienna International Centre for the use of the United Nations. The letter stated that in addition to making available the necessary office space for UNICEF headquarters at a symbolic rent of one Austrian schilling per year, Austria would grant the same immunities and privileges accorded to the international organizations presently housed at the Vienna International Centre.

51. In response, the Executive Director wrote to the Permanent Mission of Austria to the United Nations on 2 October gratefully acknowledging the offer and indicating that in order to evaluate it and compare it with other possible options that UNICEF was considering, UNICEF would require additional information and answers to a number of questions which UNICEF would provide. The Mission was also informed that any information concerning the details of the offer would need to be received in time to be included in the UNICEF report to ACABQ which had a deadline date of mid-November. In order to comply with this request, the additional information requested and the answers to the questions needed would have to be received by UNICEF by the end of October 1992.

52. On 8 October 1992, UNICEF sent to the Mission an extract from the invitation to submit a proposal to UNICEF for headquarters space accommodations, including a detailed questionnaire dated 24 September 1991, which had been originally issued for the purpose of soliciting proposals for premises. An additional supplemental questionnaire was also included, which asked certain important questions unique to a possible overseas relocation. Additional important questions were subsequently raised on 20 October 1992. As noted in paragraph 5 above, on 23 November 1992, the Permanent Mission of Austria informed UNICEF that because of time constraints resulting from the deadline, Austria would be unable to submit a detailed substantive proposal. On 14 December 1992, the Executive Director informed the Austrian authorities that due to circumstances largely beyond the control of UNICEF, he would not be able to make a final recommendation until sometime after mid-January 1993, thus extending the deadline to 15 January 1993. UNICEF was subsequently informed verbally by the Mission that the new deadline date did not change the substance of its previous letter of 23 November 1992.

IV. REVIEW OF THE NON-FINANCIAL IMPLICATIONS OF MOVING MOST OR ALL OF CENTRAL HEADQUARTERS FROM MANHATTAN

53. In decision 1992/35 (E/ICEF/1992/14), the Executive Board requested the Executive Director to continue the review of the non-financial implications of moving most or all of central headquarters from Manhattan. The non-financial implications of a possible relocation to New Rochelle, Queens or generally any area outside of Manhattan within 25 miles of United Nations Headquarters would involve advantages as well as disadvantages, which are discussed below.

A. Advantages outside Manhattan

54. A major advantage would be the opportunity to consolidate all office space in one building, instead of having staff spread out in two or three different locations. Having all of UNICEF New York staff, including GCO, located in one building would also permit the merging and consolidation of common administrative services such as messengers, diplomatic pouch and mail services, receptionists and security, reproduction and documents distribution and the common use of one telecommunications and computer system. As a result, fewer staff would be needed for these essential services. If all UNICEF staff worked in one office building, they could use the same facilities such as a canteen/cafeteria, staff lounge, fitness/recreation centre, medical unit, library and information facilities.

55. Consolidation would also facilitate working relationships between various organizational divisions, sections and units, while the common use of conference rooms would facilitate meetings.

56. The construction of a new building either in New Rochelle or in Queens would permit UNICEF to participate in the design and development of the project from the very beginning and, therefore, the building would meet the organization's current and anticipated future functional requirements. It would be designed to incorporate all of the latest office building technology to meet UNICEF telecommunications and computer services needs. A new building

would be designed and built to be highly energy efficient with regard to air conditioning, ventilation, office lighting and the use of electricity for other purposes, such as the elevator systems. In either location outside of Manhattan, expansion possibilities beyond current UNICEF staff growth estimates (which have been projected to the year 2010) would be available.

57. A stand-alone separate building of the type envisaged for a location outside Manhattan would permit superior property security, as UNICEF would control all building facilities and access to those facilities. In addition, there would be ample parking facilities for both staff and visitors at reasonable rates. UNICEF would be the major occupant in either of the two locations, which would permit UNICEF to control the occupancy of excess space in the building to other tenants and the duration of such subleases.

58. UNICEF warehouse and storage accommodation requirements could be centralized at locations reasonably close to either place, at very reasonable cost.

59. Compared to the midtown Manhattan area, a location outside of Manhattan would offer a quieter working and living environment.

B. Disadvantages outside Manhattan

60. At present, UNICEF uses many of the facilities and services available at United Nations Headquarters, including translation, interpretation, documentation and conference services, diplomatic pouch and mail facilities, shipment of personal effects, legal services and use of the United Nations Library, the Delegates Dining Room, the cafeteria, banking facilities and credit union and various other services. Obviously, some of these services could be available at a location outside of Manhattan, but the utilization of United Nations conference facilities for meetings of the Executive Board or other large UNICEF meetings would need to be continued. Although this would be inconvenient, it would be possible with the establishment of a shuttle service between a UNICEF location outside of Manhattan and United Nations Headquarters.

61. UNICEF also maintains working relationships with various United Nations departments, UNDP and other United Nations agencies and non-governmental organizations located in the United Nations development district. A location outside of Manhattan would require additional travel time for UNICEF staff to attend meetings, and so on.

62. The current location of UNICEF House near United Nations Headquarters and the UNDC buildings (One and Two United Nations Plaza) enables the Executive Director and his senior staff to maintain direct and personal contact with the Secretary-General and other United Nations senior staff, other United Nations agencies and with the many Permanent Missions to the United Nations located in the area.

63. The historical location of UNICEF headquarters within the United Nations development district has undoubtedly influenced the majority of the UNICEF staff to choose housing, either rented or owned, in areas with reasonable access to midtown Manhattan. While a relocation outside of Manhattan might

obviously benefit some staff, in most cases there might be additional travel time, unless staff were to relocate. However, because of the relatively good transportation available to and from the two outside Manhattan locations being considered, this factor may not be a major disadvantage.

V. CONCLUSIONS AND RECOMMENDATIONS

64. Based on the developments described above, there are two main options open to UNICEF at this time:

(a) Option 1. To move UNICEF headquarters to a newly constructed building in New Rochelle;

(b) Option 2. To remain at UNICEF House and have UNDC acquire a second building in close proximity, with the two sites together eventually to house all of New York headquarters.

65. Table 4 is a financial summary of the alternatives/options available to UNICEF; it includes figures, for comparison purposes, of the status quo or "do nothing" option which would retain UNICEF House beyond its present lease expiration (i.e. 2002). The various options included in table 4 are described below.

Table 4

FINANCIAL SUMMARY OF HEADQUARTERS ACCOMMODATION ALTERNATIVES

(Figures in columns 2 and 3 are in millions of United States dollars for the 32-year period 1995-2026)

Alternative	Total cost in nominal terms	Net present value discount rate of 10%	Average net annual cost expressed in US dollars per sq. ft. a/	Number of locations	Ownership status	Total amount of sq. ft. in 1995	Total amount of sq. ft. in 2026
1	2	3	4	5	6	7	8
1. Status quo (current leases)	685.1	164.7	39.11	3 or 4	None	320 723	440 000
2. UNDC offer (no twin headquarters)	589.1	140.7	28.50	3 or 4	UNICEF House only	283 094	441 094
3. Twin headquarters							
(a) Building "A" (i)	725.7	201.7	37.91	2	Own 100%	500 571	421 848
Building "A" (ii)	679.1	187.6	31.11	2	Own 100%	500 571	421 848
(b) Building "B"	613.8	159.1	25.45	2	Condominium	374 863	448 921
(c) Building "C"	603.7	153.9	23.93	2	Condominium	362 056	460 608
4. Relocate (New Rochelle) Sublease UNICEF House/East 38th St. at 50 per cent of present lease costs	494.0	133.2	18.27	1	Own 100%	699 214 b/	440 000

a/ Excludes operating costs, tenants' electricity and relocation costs. Includes acquisition and renovation costs, if any.

b/ Includes current space at UNICEF House, One Dag Hammarskjöld Plaza and 333 East 38th Street which may or not be subleased.

/...

A. Status quo (current lease)

66. The "status quo" option would involve retaining all existing leases at UNICEF House, One Dag Hammarskjöld Plaza and 333 East 38th Street, continuing existing leases to expiration and acquiring new space on a lease basis at One Dag Hammarskjöld Plaza, 333 East 38th Street or another building, if needed. UNICEF would exercise the option to extend the lease at UNICEF House upon its expiration on 30 June 2002.

67. The financial analysis considered present lease costs at existing locations, using the contract rental rates to their respective expiration and then assuming a market rate beyond the expiration date with a fixed increase every five years until the year 2026. In the case of UNICEF House, for example, the base lease rate increases to $47.00 per square foot as called for in the lease. Any new space is acquired at rental rates escalated to market rate at the time the space is acquired. The operating expenses are escalated at the rate of 4 per cent per year for all locations.

68. The purpose of developing the financial details of this option is to understand and be able to compare the costs against the other options if UNICEF were to reject all present offers and continue to acquire office space for its future needs as it has done in the past. Under this option UNICEF would not obtain ownership of any property it occupies.

B. United Nations Development Corporation Offer

69. Under this option, UNICEF would accept the UNDC offer to restructure the UNICEF House lease only (no twin headquarters), remain in other locations (333 East 38th Street and One Dag Hammarskjöld) and continue to extend leases and acquire new space on a lease basis as needed. The eventual results of this option would be for UNICEF to own UNICEF House only in the year 2026 and to lease all other space needed in the future.

C. Twin headquarters

70. This option would have UNICEF accept the UNDC offer to restructure the UNICEF House lease and retain the other leases (333 East 38th Street and One Dag Hammarskjöld) until their expiration date, but consolidate current space at One Dag Hammarskjöld Plaza and 333 East 38th Street into a second building offered by UNDC, referred to in table 4 as buildings "A", "B" and "C". Two figures are provided for building "A", as negotiations for this acquisition are still proceeding. One figure (building A (i)) represents the seller's asking price as of January 1993 and the other figure (building A (ii)) represents the UNDC estimate of the possible final acquisition cost. The eventual result of this option would be that UNICEF would own both UNICEF House and the expansion building (either building A, B or C) in the year 2026. As the lease at One Dag Hammarskjöld expires in August 1995, subleasing of this space is not assumed. For 333 East 38th Street, the figures calculated were based on subleasing the space at one half the cost of the present lease, which is consistent with the other proposals.

D. Relocate

71. This would entail accepting the offer made by the City of New Rochelle and relocating headquarters outside of Manhattan in a newly built, 440,000 square foot office building, assuming that UNICEF House and East 38th Street can be subleased at one half the cost of the present lease obligations. No income is assumed for any surplus space in the new building, which will have about 158,000 square feet of surplus space in 1995, about 113,000 square feet of surplus space in the year 2000 and about 57,000 square feet of surplus space in 2005.

E. Summary of alternatives

72. Table 5 shows the estimated total cost for each alternative expressed in United States dollars per square foot averaged over the 32-year period between 1995 and 2026. The total costs include all the estimated costs associated with each building within each alternative, including items such as payments to amortize bonds, operating expenses (tenant electric, renovation, tenant fit-out and relocation cost estimates) and the costs associated with any remaining lease obligations assumed. The major components for each are also provided in order to compare each component with the alternatives. The major components included are:

(a) Net base cost, which includes cost of acquisition and payment to amortize bonds or net lease rent and is exclusive of operating expenses and tenant electric;

(b) Operating expenses, which include the cost of operating and maintaining the premises, including tenant electric;

(c) Other, including the cost of renovation, tenant fit-out, relocation costs, carrying charges (which include one year of operating expenses and debt service before the building is occupied by UNICEF) and the expense of remaining lease obligations that are not included. As this component has many subcomponents, each of which may vary greatly for each alternative, table 6 provides the costs in millions of United States dollars of each component for each alternative.

73. Although a significant amount of detail has been provided in table 6, these costs should be considered or viewed in relation to the overall costs of the alternative, i.e., they represent a relatively small portion of the total costs over the 32-year period, as shown in table 4 above (column 2).

74. To visualize the difference in the costs of each alternative as detailed in table 4, the figure below shows the difference in costs, expressed in nominal terms, of each of the options when compared to the "status quo" alternative, which is represented by the "0" base line. Alternatives with positive graphs (i.e., to the right of the baseline) are better (less costly) than the status quo alternative and conversely, alternatives with negative graphs (i.e., to the left of the baseline) are worse (more costly) than the status quo alternative. When looking at the financial comparisons shown in the

Table 5

COMPONENTS OF AVERAGE ESTIMATED ANNUAL TOTAL COST PER SQUARE FOOT

(United States dollars per square foot averaged over the period 1995-2026)

Alternative	Net base cost a/	Operating expenses b/	Other c/	Total
1. Status quo (current leases)	38.45	15.09	0.48	54.02
2. UNDC offer (no twin headquarters)	31.54	14.46	0.42	46.42
3. Twin headquarters				
(a) Building "A" (i)	30.15	20.98	1.99	53.12
Building "A" (ii)	26.75	20.98	1.99	49.72
(b) Building "B"	24.79	18.07	0.91	43.77
(c) Building "C"	24.06	18.52	0.79	43.37
4. Relocate (New Rochelle) Sublease UNICEF House/ East 38th Street at 50 per cent of present lease costs	14.33	15.39	3.94	33.68

a/ Base costs for coverage of debt or net rent as applicable.

b/ Includes tenant electric.

c/ Includes renovation, fit-out and relocation costs, carrying charges and sublease expenses (see table 6 for details and totals).

/...

Table 6

COMPONENTS OF OTHER COSTS REFERRED TO IN TABLE 5 FOR EACH ALTERNATIVE

(In millions of United States dollars for the period 1995-2026)

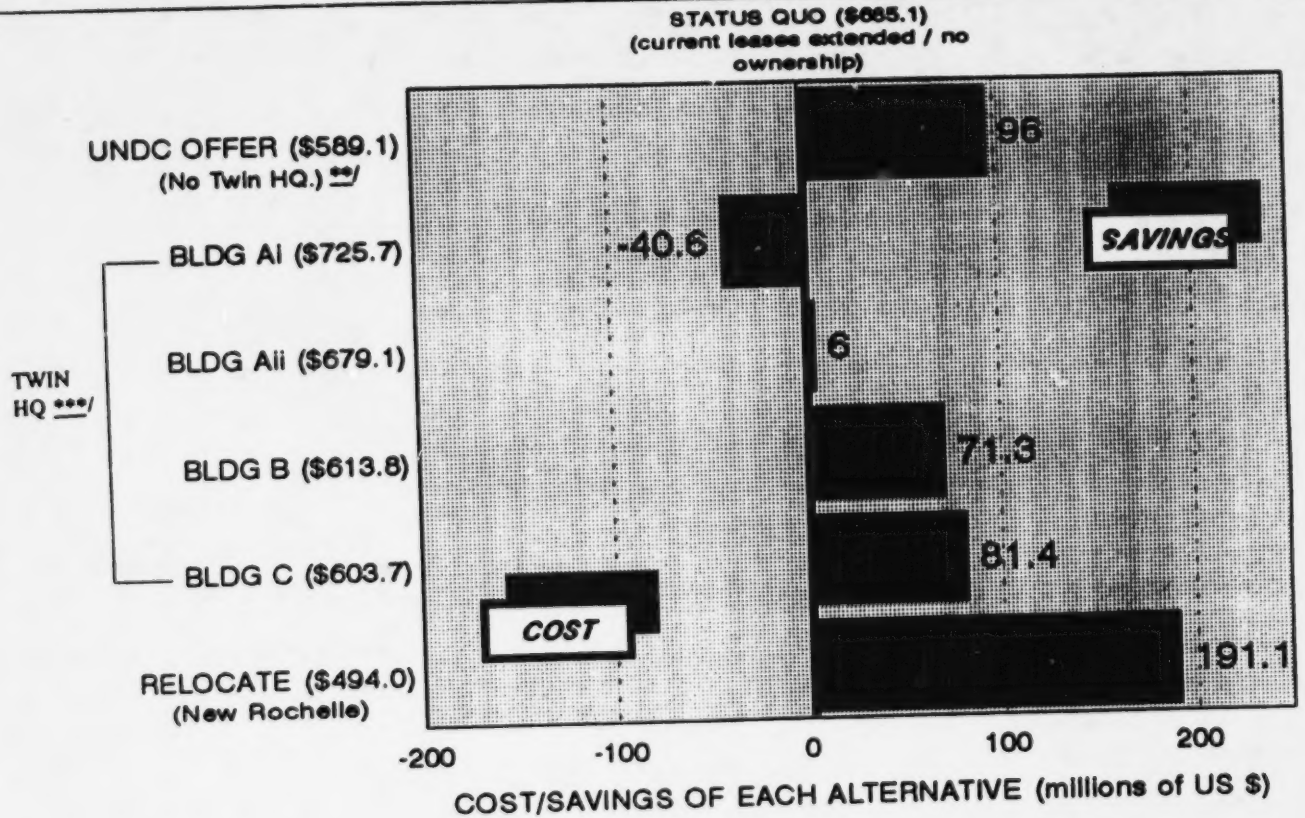
Alternative	Renovation	Fit-out	Relocation	Carrying charges a/	Sublease expenses	Total
1. Status quo (current leases)	-	6.3	0.5	-	-	6.8
2. UNDC offer (no twin headquarters)	-	5.5	0.4	-	-	5.9
3. Twin headquarters						
(a) Building "A" (i)	7.1	7.6	-	7.1	5.1	26.9
Building "A" (ii)	7.1	7.6	-	7.1	5.1	26.9
(b) Building "B"	2.3	4.2	-	1.5	5.1	13.1
(c) Building "C"	1.0	4.2	-	1.3	5.1	11.6
4. Relocate (New Rochelle) Sublease UNICEF House/ East 38th Street at 50 per cent of present lease costs	-	15.4	0.6	-	39.5	55.5

a/ One year of operating expenses and debt service, where applicable, before building is occupied by UNICEF.

/...

FIGURE

SAVINGS OR COST OF ALTERNATIVES WHEN COMPARED TO STATUS QUO*/
(Expressed in Nominal Terms in Millions of US Dollars for the 32 Year Period 1995 - 2026)
(Figures) Represent Total Cost as Taken From Table 4



*/ Status Quo as described in paragraph 56 extending current leases upon expiration then, with new space, escalated to market rates until the year 2026 with no ownership upon conclusion of leases.

**/ Involves ultimate UN ownership of UNICEF House but not of other leased premises.

***/ Involves ultimate UN ownership of both headquarters buildings.

*/

figure and table 4 above, it is important to note that after the year 2026, in the case of the Manhattan twin headquarters alternatives and the New Rochelle relocation alternative, the annual occupancy costs will decrease significantly as the bonds will be paid off and only operating costs will have to be paid. In the case of either the status quo or the UNDC offer without a twin headquarters building, the annual occupancy costs would continue to increase beyond the year 2026 and UNICEF would have no ownership of a second building. In the case of the status quo alternative, UNICEF would have, of course, no ownership of either UNICEF House or a second building.

75. While the New Rochelle proposal (option 1) is the most cost-effective option as indicated in table 4 above and offers certain other non-financial advantages, the Executive Director believes there is a need to look beyond the financial framework to the broader situation of the strategic location of UNICEF House and a twin headquarters building in the United Nations development district and their proximity to United Nations Headquarters. He believes that the disadvantages of distance from United Nations Headquarters and from a large number of Permanent Missions in the area is a major and paramount consideration for the basis of a decision regarding this matter.

F. Current lease obligations

76. With regard to a possible relocation to New Rochelle, it is important to take into account current UNICEF lease obligations both at UNICEF House and at 333 East 38th Street. As noted in table 1 above, the lease at UNICEF House, covering 180,491 of gross rentable space, does not expire until 30 June 2002, or about seven and one half years beyond the estimated occupancy date (January 1995) of a new building in New Rochelle. Additionally, the lease of the GCO space consisting of 40,000 gross rentable square feet at 333 East 38th Street does not expire until the end of 2003, or about nine years beyond the estimated date of occupancy in a new building.

77. The consultants collaborating with UNICEF in the office accommodation study believe that the prominent and convenient location of UNICEF House will be attractive to United Nations Permanent Missions and affiliated organizations currently seeking office space in the United Nations development district and that consequently, it is reasonable to expect that UNICEF would be able to sublet or assign most, if not all, of this space. As noted in the 1992 report (E/ICEF/1992/AB/L.9), under the terms of the existing lease between UNICEF and UNDC, UNICEF could, under certain conditions, assign the leases or sublet the premises. However, there is an element of risk involved in assuming that UNICEF would be able to sublet or assign the entire premises. The consultants, therefore, believe that any financial comparison of the New Rochelle proposal with other alternatives should be based on the assumption that only 50 per cent of the total cost of the lease obligations at UNICEF House and 333 East 38th Street would be recovered, if UNICEF were to relocate outside of Manhattan. The financial implications of this assumption are reflected in table 4, line 4. If tenants could not be found for either all or part of the space, UNICEF would be responsible for paying the rental occupancy costs as prescribed under the terms of the lease for the unexpired remaining term. If the lease obligations for UNICEF House and 333 East 38th Street had to be paid completely by UNICEF, the estimated present value cost for the period 1995 to 2003 would be

$52.7 million, of which $44.8 million relates to UNICEF House and $7.9 million relates to 333 East 38th Street. If UNICEF accepts the proposal by UNDC/NYCEDC to remain at UNICEF House, the lease obligation of $44.8 million for this building would not be a factor. However, the lease obligation of $7.9 million relating to 333 East 38th Street would remain when GCO would relocate to the second or expansion space building, the timing of which would be controlled by UNICEF. Although the space leased by GCO at 333 East 38th Street is not exempt from New York City real estate taxes, the average base rental cost for this space is $26.00 per square foot, which is quite reasonable for a midtown Manhattan location within the proximity of United Nations Headquarters, even in the current depressed real estate market. Because of the relatively low rental cost and location of this building, the prospects of subleasing this space would be reasonably good.

G. Revised proposal from United Nations Development Corporation/New York City Economic Development Corporation

78. New York City, UNDC and NYCEDC have made considerable efforts, including significant financial concessions, to meet the long-term office accommodation needs of UNICEF in a cost-effective manner. The long-term financial benefits to UNICEF in this regard are illustrated in table 4 above when this option is compared to the status quo option. For example, if UNICEF were to continue to maintain existing premises under the current leases, as well as to secure additional leased space in order to accommodate the projected growth, it is estimated that over the 32-year-period 1995 to 2026, the total cost to UNICEF for both headquarters and the GCO premises would be about $685.1 million. Because of the concessions made by New York City, UNDC and the NYCEDC, the total cost for UNICEF to maintain its headquarters in Manhattan over the same 32-year period mentioned above is estimated at $96 million less than it would be if UNICEF continued under its current lease arrangement. This estimate includes securing additional needed space on a lease basis in other buildings in Manhattan as required to meet projected growth requirements. One of the most important concessions made to UNICEF is that after the bonds are paid off for UNICEF House and the second building acquired by UNDC/NYCEDC for UNICEF use, ownership of both properties would be transferred to UNICEF (or the United Nations), provided that both premises are fully occupied by UNICEF or the United Nations and that UNICEF continues to maintain its headquarters operations in New York City. NYCEDC has indicated to UNICEF that it is fully prepared to match, in either Brooklyn or Queens as indicated by UNICEF, the economics of any offer proposed to UNICEF by New Rochelle. However, to put this in perspective, to be comparable to the New Rochelle offer, this would have to be a newly constructed building, which UNICEF believes could not be completed before the year 1998, and that the proposal is related to areas of Queens acquired before site clearance that are part of a larger development and still have existing commercial or residential buildings. These properties would also have to be acquired and the related infrastructure (streets, roads, subways) would have to be developed or upgraded. Also to be considered are certain non-financial incentives referred to in chapter IV above.

VI. RECOMMENDATIONS OF THE EXECUTIVE DIRECTOR

79. The Executive Director believes that it would be in the best interest of UNICEF to accept the proposal by NYCEDC and UNDC with regard to extension of the UNICEF House lease and the acquisition of building "A", which the Executive Director believes would best satisfy the long-term needs of UNICEF and the United Nations, as described in the present report. Therefore, the Executive Director recommends that he be given the authority to proceed with the final negotiations with respect to this choice. He also recommends that he be given the authority to issue, if necessary, a letter of intent to UNDC/NYCEDC which would take into account, if required, the possible necessity of subleasing the existing space occupied by GCO at 333 East 38th Street and which would contain the qualifying clause, "subject to the concurrence of the United Nations Advisory Committee on Administrative and Budgetary Questions and the approval of the UNICEF Executive Board". Under this recommendation, UNICEF would exercise its option to lease the fourteenth and fifteenth floors at UNICEF House after they are vacated, in accordance with the conditions stipulated in paragraph 17 (b), (i), (ii) and (iii) above. If this recommendation is approved by the Executive Board, it would be the intention of the Executive Director to issue a progress report to the Executive Board in the fall of 1993.

80. In order to implement the recommended proposal, it is estimated that funds in the amount of $800,000 will be required over the two-year period from mid-1993 to mid-1995. These funds would be required to strengthen the existing Headquarters office accommodation function in the Headquarters Services Section of the Office of Administrative Management. The implementation of the project would be a very time-consuming and complex undertaking, which cannot be dealt with by the small unit currently responsible for the administration of headquarters office premises at UNICEF House and One Dag Hammarskjöld Plaza. To implement this project, it is proposed to provide the following resources to the Headquarters Services Section:

	(United States dollars)
Professional support services (two work years)	250 000
Clerical/administrative support services (two work years)	100 000
Consultant services for legal purposes	200 000
Consultant services for engineering services	50 000
Consultant services for architectural/space planning	200 000
Total	800 000

81. The cost estimates for the support services indicated above have been based on UNICEF standard estimated budget costs.

82. Therefore, the Executive Director further recommends that a budgetary provision of $800,000 be allocated for the purposes outlined above.